DOCUMENT RESUME

ED 084 203 SO 006 624

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TITLE Clients, Consumers, and Citizens: Using Market Mechanisms for the Delivery of Public Services.
PUB DATE Mar 72
NOTE 13p.; Paper presented at the Conference on Centrally Planned Social Change, University of North Carolina and Brandeis University, April, 1972

EDRS PRICE MF-$0.65 HC-$3.29
DESCRIPTORS Citizenship; *Consumer Economics; Economic Factors; Economics; Educational Demand; *Educational Economics; Educational Supply; *Education Vouchers; Planning; *Public Policy; Services; Social Change; *Social Planning; Socioeconomic Influences; Speeches

ABSTRACT

The ethical and technical superiority of a consumer-oriented system for the delivery of many public services, as compared to a client-based system, is demonstrated. The meaning of planning in a modern democratic society is examined. From distinctions drawn between the meaning of private and public goods in economic theory, some useful categories are constructed for public goods and services. The categories are then played off against alternative delivery mechanisms for these public commodities, in the process of which the voucher concept emerges as rather desirable. Areview of the advantages and disadvantages of the voucher/market mechanism leads to some suggestions for ways in which it might be improved. It is argued that, when considering appropriate organizational devices for providing goods and services, the virtues of citizenship are more likely to be preserved when people are thought of as consumers instead of as clients. (Author/KSM)

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March 1972

SP 006 624

P-4803

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CLIENTS, CONSUMERS, AND CITIZENS:

Using Market Mechanisms for the Delivery of Public Services*

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Neither the image of consumer nor of client inspires a very favorable reaction anymore. I use the term "consumer" here as it is conventionally defined and increasingly attacked by representatives of the counter-culture. By "clients," however, I refer to a usage slightly more archaic but still quite serviceable: "One who is under the protection or patronage of another, a dependent." *(Oxford English Dictionary.)* Those who utilize or benefit from government services are often called clients, particularly by the officials who see themselves as protectors. "Citizen," on the other hand, still connotes an honorable and admirable estate, even if on some of the farther fringes it is losing out to terms like "Communard." In this paper I shall try to demonstrate that when considering the appropriate organizational devices for providing goods and services to people, thinking of them as consumers instead of as clients is much more likely to preserve the virtues of citizenship, both in self-concept and in political functioning. Getting the government to think of the populace as citizens and getting the people to think of themselves that way would indeed represent profound, and healthy, social change.

I shall try to demonstrate the ethical and technical superiority of a consumer-oriented system for the delivery of many public services, as compared to a client-based one, by means of the following series of steps:

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*This paper was prepared for presentation at the Conference on Centrally Planned Social Change, sponsored by the University of North Carolina and Brandeis University, Quail's Roost, North Carolina, April 26-29, 1972.

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First, I shall very briefly examine the meaning of planning in a modern democratic society. Next, I shall very gingerly descend into some economic theory in order to make some distinctions between private and public goods, and then construct some useful categories for public goods and services. The categories are then played off against alternative delivery mechanisms for these public commodities, in the process of which the voucher/market variant emerges as a rather desirable one. A review of the advantages and disadvantages of the voucher/market mechanism leads to some suggestions for ways in which it might be improved to make it even more attractive.

I.

The topic we have assembled to debate comes close to comprehensive socioeconomic planning, which is not at all the same thing as a discussion of methods for reforming traditional government operations in capitalist societies. Yet, given the conclusions reached in this paper, I find myself unable to participate as an enthusiastic proponent in that wider debate. If, as I hope to show, detailed central planning of the type practiced in New York City for manpower training or in Washington, D.C., for public housing tends to be insensitive, wasteful, and elitist, it becomes difficult, for me at least, to advocate its extension to the production and distribution of motion pictures, household furniture, and all other goods and services, as is now the style in Havana, Moscow, and Peking. I fail to see how defenses of comprehensive planning can rest on any assumption other than that some obscurely structured organization of leaders, apparatchiks, and engineers is the best judge of individual welfare for some imminent, if not for the existing, population. There is, of course, no scientific proof that these organizations are *not* the best judges; rather, I take it as an article of faith that each individual tends to be the best arbiter of his or her own welfare. I also admit to a strong preference for living in a society where most people have this faith.

The more radical argument which holds that individual welfare is irrelevant and that the good of some collectivity is, instead, to be maximized, simply results for me in a logical short circuit. This is no doubt due to the conditioning of Western liberal thought, which I found myself unable to transcend in the writing of this paper.

I have limited myself, then, to a consideration of planning as it operates now and might operate in the future in the so-called public sector; that is, in the production and distribution of public goods; these will require some further definition as we proceed. I do not mean to imply by this limitation that I feel there are no failures in the private sector but only that I tend to doubt seriously whether central planning is either a moral or an efficient solution to those problems. The public sector -- activities of federal, state, and local governments, public authorities, some nonprofit institutions -- is now planned, as that word is currently defined. Basic decisions are made by politicians in the construction of budgets which ostensibly express socially determined priorities, and they are carried into actuality by bureaucracies. One can certainly argue that no overall vision informs the Congress and the Executive branch as they construct a national budget, and this accusation would be even more accurate in describing the totality of sub-national governmental budgets. This seems much more, however, the price paid for living in a pluralistic, heterogeneous society rather than the result of a failure to appreciate the virtues of detailed, rational planning.

My main concern, then, is not whether there ought to be planning for public sector activities; some sort of planning here is unavoidable, given the nature of the phenomenon. Rather, it goes beyond planning. Once a social objective is politically acknowledged, and after it is decided to achieve it by means of the production and distribution of some good or, more commonly, some service, we must still face the question of the most appropriate means for producing and allocating the service. It must be added parenthetically that much of what governments do does not directly involve production in this sense but consists in transferring money from one person to another or in regulating the activities of people or institutions.

II.

A useful way to begin a discussion of public services is to review what economists mean by "public goods." In the theory, public goods are taken to be those commodities that meet either of the two conditions (1) It is not possible to exclude some relevant group of people from the enjoyment of the good, and thus the full benefits of production cannot be appropriated by the producer through sales. National defense and generalized police protection are usually cited as the classic examples; (2) consumption of the commodity is not subject to crowding so that its utilization by one person does not reduce consumption opportunities for others. Here the classic example is information, which, of course, does not get used up as it is used. In both cases, there exist grounds for public responsibility in making the goods available either by governmental production and distribution or by subsidies to expand private production and distribution. Private firms, on their own, would always choose to produce too little of such goods because they could not capture the full benefits of production through sales or because they would restrict consumers to those willing to pay a price even though the admission of additional consumers lowers no one's consumption opportunities -- that is, even when the *social* costs of consumption are zero.

There is a third type of production which governments often engage in that does not meet either of the pure public goods criteria. I refer to "natural" monopolies or situations in which, because of technical considerations, a good is most cheaply provided in some relevant market by a single producer. The government has the option to regulate a private supplier -- without regulation the private monopolist will find it to his advantage to produce less and to sell at a higher price than technically necessary -- or to produce the good itself. Utilities and some sorts of transport are the common examples, and governments often choose public production because they rightly perceive the political difficulties of truly effective regulation.

A remaining type of public activity does require some discussion, however, because it results in a class of services for which government is the only logical producer. I refer to the protection of incompetents or to situations in which the government acts in *loco parentis*. When providing medical care to orphans or counseling to juveniles, or treatment to the insane or some kinds of services to addicts or alcoholics, utilization of the kinds of voucher/market mechanisms we shall discuss are clearly inappropriate, since the basic necessary presupposition -- competence on the part of the user of the service -- is not valid, which is, of course, the reason the government originally intrudes.

The search for more desirable production and distribution mechanisms is thus restricted to the rather more classic public goods for which exclusion is either impossible or extremely expensive, or for which crowding does not apply, since for natural monopoly and *loco parentis* situations there exist no reasonable alternatives to production and distribution by government. Even activities justified in furtherance of greater equality, it should be noted, can be thought of as the provision of public goods. If there is a general social preference for a set of outcomes more nearly equal than that brought about by the unfettered workings of the market system, a role for government arises. The magnitude of wholly voluntary gifts and transfers between people will be socially insufficient, since each person can gain satisfaction simply by observing his neighbor's giving. Activities which promote equality of opportunity, rather than act directly on condition, can be thought of as either instrumental in bringing about more equal conditions or as fulfilling a social preference for justice, in the sense of making rewards commensurate with abilities. In any case, opportunity-equalizing interventions have public good justifications too. Of course, many programs that have as their aim the extension of equality take form as transfers of money from richer to poorer. In these cases, the public good -- satisfaction generated by living in a more equal society -- is

produced as a result of the cash transfer; there is no other production, and the public fisc is the logical transfer channel. But some programs seek to extend equality by making transfers in kind -- e.g., through housing, medical, or educational services -- and they can therefore properly be considered as candidates for the application of the voucher/market approach.

This digression into the philosophy of political economy is intended to demonstrate that the recognition of government responsibility for making a commodity available does not imply that government is the best producer of that same commodity, and that in the case of classic public goods, which cover the greater part of what we traditionally refer to as public services, there are indeed alternative mechanisms. The remainder of this paper is devoted to an attempt to show that for such services as education, skill training, day care, recreation, health care, housing, retirement insurance, and many others, the voucher/market mechanism is at least a viable, and is often a superior, alternative.

III.

In a voucher/market system, some eligible group is identified and then granted the right to utilize a given service, the expression of the right consisting of the issuance of a voucher. The grantee is expected to find his own supplier in a marketplace of potential suppliers who will be compensated for the service he renders either by means of a bill submitted to the appropriate government agency or directly by the grantee who is then usually required to show the agency that he has in fact utilized the service. The quality of the service may be constrained in various ways by the agency and in some cases only suppliers meeting certain conditions are permitted to receive compensation. Suppliers could range from existing governmental institutions through neighborhood or church groups, to cooperatives and other forms of not-for-profit organizations, all the way to ordinary for-profit, private firms.

Voucher/market systems are neither very new nor very rare. Many college scholarships have voucher features, and though rather recent as a government activity (e.g., National Merit Scholarships), they have historically been provided by eleemosynary institutions. An early and very large government voucher program, of course, was the GI Bill's education and training benefits following World War II. Veterans were granted the right to a college education or to vocational training; the government provided the financing, while the veteran shopped for an institution that could provide the courses that interested him. Food stamps are the equivalent of vouchers, and so are the identification cards which certify that the holder is eligible for Medicare benefits. Rent supplements as currently administered, on the other hand, do not qualify as vouchers. In that program, the contract is between the government financing agency and the supplier of the service, here the builder/owner; the result is not an enhancement of consumer power but merely a hybrid form -- public housing with private owners. Similar government-supplier contracting arrangements often obtain in day care and recreation services and here too few of the potential advantages of the voucher approach are realized.

And vouchers do promise some very real benefits. Most of them stem from the effects of competition among suppliers of the service. Efficiency in operation comes immediately to mind. Those suppliers who cannot meet the costs of their rivals, assuming of course that the vouchers are sufficient to cover typical costs at the quality level prescribed, cannot continue in operation. It is difficult to think of government projects which have gone out of business because their costs were too high. At the same time, innovation is encouraged and is rewarded when its results meet with the approval of users of the service, the voucher-wielding consumers. The spread of successful innovation would be hastened by these same forces of competition. None of these effects characterize the production of public services by

governmental agencies which tend, instead, to have monopolistic power over their "markets." (Think of the neighborhood public school or the local public clinic in the days before Medicaid.)

The other side of the coin of competition is freedom of choice. Services that are justified as a result of their public good aspect tend to go to ordinary people (e.g., schooling) and, in many cases, to people who are poor or otherwise disadvantaged (e.g., assisted housing). There seems to exist a curiously pervasive but largely unexamined assumption that such people are not to be trusted to make the kind of choices that more fortunate people make continually. Is the fact that rich people are permitted to choose their children's schools based on their demonstrated superiority in judgment over those whose only option is the public school, or is it a result of unadmitted elitism? And, freedom of choice has instrumental as well as ultimate value. The process of choice-making can sharpen political and organizational skills. Would leaders prefer not to see such skills emerge?

A third advantage of voucher schemes stems from the fact that the subsidized and the unsubsidized consumers will tend to mix in the market. Despite pious political rhetoric, public housing is still built in poor neighborhoods and, unlike trade and professional schools, public vocational programs draw the hard-core unemployed. Granting the disadvantaged the power to choose suppliers of the services they require will not only reduce the stigma that now attaches to the consumption of these services in public institutions but will also foster integration in the society. On the other hand, "nationalists" who prefer to maintain some separation from the majority in, say, education or housing have the option of doing so, provided only that they can find a sufficient number of like-minded voucher recipients whom they consider "compatriots."

The voucher/market approach has not escaped attack by critics. Some of the points they raise are entirely valid, others are troublesome but subject to remedy, while still others tend to be quite specious. Among the more prominent of the latter is the accusation that a result of opening up the potential supply for many public services will be the needless duplication of facilities. But whether having more than a single supplier is needless (i.e., inefficient) depends on the technical characteristics of the production process for that service and the amount of variance in taste among potential buyers. For most personal services -- the nearest equivalent, for which cost studies have been done, of public services -- the optimal size of establishment tends to be quite small. There are lots of beauty salons because customers want convenient locations and have varying preferences for style and atmosphere; there are very few public high schools because they have little incentive to be either convenient or responsive to individual preferences. Not that the political system does not sometimes surpass the market in providing a plethora of nearly identical suppliers. A visit to any city's poverty area and a tally of the separate job training and counselling programs will quickly demonstrate this.

Another line of attack holds that competition is likely to reduce quality. The rationale appears to be that cost-cutting pressures will result in less than adequate standards of service. There are at least three responses to this charge. First, the financing provided by the vouchers must be sufficiently generous so that the average supplier can meet the quality standard. Second, it is undeniably important to establish official quality standards, the violation of which will void the suppliers' right to cash the vouchers. Third, it must be recognized, of course, that many public agencies have been rightly accused of providing low-quality service. In short, to base a preference for public monopoly provision over voucher/market systems on the assumed goodwill of the civil servants staffing the former and the assumed shortsightedness of the people running the latter is to be neither very realistic nor entirely responsible.

Critics also make a more fundamental objection to the voucher approach, one already touched upon. They question the basic competency of consumers to make rational choices amongst competing suppliers. Often the doubts are expressed only about the sorts of people who use public services but increasingly one branch of contemporary social criticism questions the ability of any individual to choose wisely. The grounds for doubt rest on assertions that people have an insufficiency of the right sort of information -- about the technical characteristics of the product, its long-term consequences, its social effects -- and are overloaded with the wrong sort, the latter coming primarily from advertising. Lacking space to treat the impact of advertising and its role in society, suffice it to argue here that in itself advertising is neutral. It can encourage cigarette smoking but also advocate "kicking the habit." It is used to promote family planning and residential integration as well as underarm deodorants and exclusive suburbs. There seems no compelling reason why advertising by organizations hoping to lure voucher-holders could not be stringently regulated, as in the cases of cigarettes and liquors.

As to the provision of "good" advertising (i.e., useful information) there are discussed in the following section a number of ways in which this might be arranged. Why critics are ready to accept, however, that the users of public services are so benighted that they will succumb to the lures of fraudulent promotion but be blind to prudent and responsible guidance is more difficult to explain.

Observers have pointed out that the adoption a few years ago of a voucher scheme for health care -- the Medicare program -- resulted in an enormous escalation in the costs of medical services not only for the government, which foots the bill for Medicare beneficiaries, but for non-beneficiaries as well, who are feeling a ripple effect of this induced increase in demand in their own medical bills. The charge is accurate but unjust. The designers and operators of the Medicare program have been

significantly remiss in a fundamental duty: They did almost nothing to expand the supply of medical resources in the face of what they knew, or should have known, was going to be an extraordinary increase in demand. Significantly increasing the number of places available in medical schools, rationalizing state licensing provisions for practitioners, encouraging the use of auxiliary personnel, and providing for more training for such people would all have been important steps in helping supply respond to the Medicare-generated demand increase. Whatever was done along these lines was belated and piecemeal. The fault lay not in the voucher concept but in the cowardice or myopia which prevented any meaningful confrontation with the M.D. monopoly which runs American medicine. That other applications of the voucher approach will benefit from this sad experience is to be hoped, if not anticipated. But an important result should not be slighted: The poor and the elderly do now receive better medical treatment than they did when their only recourse was public clinics. Nor are they likely to disdain the freedom of choice and the absence of stigma which now characterizes their experience with health care.

IV.

The review of the advantages and disadvantages of the voucher/market approach should help illuminate some of the ancillary programs necessary to make it a success. Consumer education comes first to mind. In many cases, provision of information to consumers will not prove sufficient and the public agency will find it necessary to certify or even to license suppliers. The risk in the latter course is a very real one, however. The frequency with which regulatory agencies are captured by and subsequently run in the interest of the industry they were intended to regulate is so great that the warning hardly needs repetition.

The Medicare case should point out the importance of attention to the supply side in fields where voucher systems are to be employed. Artificial

barriers to entry can be particularly pernicious. Suppose vouchers were to be applied on a significant scale to day care services and suppose also that day care professionals and agencies, public and private, had the power to exclude new personnel and new institutions, say, by means of state licensing boards. Who would doubt that the cost of day care to the government and to those parents who were not eligible to receive vouchers would skyrocket?

The establishment of powerful ombudsman agencies would also contribute much to the equitable and efficient operation of voucher schemes. Systematic procedures for investigating complaints by consumers who use government-supplied vouchers and provisions for prevention and correction of wrongs through sanctions of various kinds seem a useful and legitimate adjunct. It might even be the case that the ombudsman would chastise poor performance or shoddy practices with a bit more vigor when the culprit was an outside institution and not a group of civil service colleagues.

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Client and consumer -- which is more congruent with the concept of citizen? I would strongly argue that the apparent advantages of the voucher/market approach where it is appropriate lead to the conclusion that it ought to be scrupulously examined, carefully tested and, where proven superior, vigorously extended.